

Arizona Department of Transportation Motor Vehicle Division's (MVD) Oversight of Third Parties

MVD failed to ensure authorized third-party companies consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, increasing public safety risks such as unsafe drivers, vehicle and identify theft, fraud, and terrorism

Performance Audit

August 2023
Report 23-105

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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August 24, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Jennifer Toth, Director
Arizona Department of Transportation

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Department of Transportation—Motor Vehicle Division's (MVD) Oversight of Third Parties*. This report is in response to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Transportation agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Arizona Department of Transportation in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Director Toth and Department staff for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Department of Transportation Motor Vehicle Division's (MVD) Oversight of Third Parties

MVD failed to ensure authorized third-party companies consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, increasing public safety risks such as unsafe drivers, vehicle and identify theft, fraud, and terrorism

Audit purpose

To determine whether MVD effectively oversaw third parties to ensure they issued vehicle titles, driver licenses, and identification (ID) cards only to qualified and authorized individuals/entities.

Key findings

- Issuing vehicle titles, driver licenses, and ID cards to unqualified or unauthorized individuals/entities can put public safety and welfare at risk. For example:
 - Unqualified drivers who receive driver licenses may pose safety risks on public roadways.
 - Unauthorized and/or fraudulent vehicle title transfers increase the risk of vehicle theft.
 - Fraudulently obtained ID documents may facilitate fraud, identity theft, terrorism, and other crime.
- Statute authorizes Department to contract with private companies (third parties) to provide some MVD services at retail locations throughout the State; Department is required and the contract allows for MVD to oversee third parties to ensure they provide these services to qualified and/or authorized individuals/entities, and MVD requires third parties to self-review their transactions and correct identified errors within 7 days.
- Third parties lacked documentation confirming individuals/entities were qualified and/or authorized to obtain a vehicle title, driver license, or ID card for 25 of 130 transactions we reviewed; some third parties inaccurately reported to MVD these transactions were error free when they were not, and others had identified but not timely corrected the errors.
- MVD has not sustained monitoring and oversight processes consistent with our previous recommendations made in 2015 to hold third parties accountable for identifying and timely correcting erroneous transactions or held third parties to the same quality assurance standards as MVD employees who provide similar services.

Key recommendations

MVD should:

- Ensure third parties issue vehicle titles, driver licenses, and ID cards only to qualified and/or authorized individuals/entities by developing and implementing written policies and procedures for monitoring and overseeing third parties, including to ensure they identify and timely correct errors that can put public safety at risk.
- Modify and implement its third-party quality assurance process to more closely align with its quality assurance process for MVD employees.



TABLE OF CONTENTS

Introduction	1
Finding 1: MVD failed to ensure third parties consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, putting public safety and welfare at risk	4
Issuing vehicle titles, driver licenses, and identification cards to unqualified and unauthorized individuals/entities puts public safety and welfare at risk	
MVD has established statutorily required third-party quality standards and process, but third parties we reviewed did not comply with standards and process, including issuing some vehicle titles, driver licenses, and identification cards without evidence that individuals/entities were qualified and/or authorized to receive them	
MVD has not sustained third-party monitoring and oversight processes consistent with our previous recommendations and has not held third parties to same standards as its own employees	
Recommendations	
Summary of recommendations: Auditor General makes 6 recommendations to MVD	11
Appendix A: Scope and methodology	a-1
Department response	
Figure	
1 Third parties issued 36 percent of all vehicle titles, registrations, driver licenses, and identification cards issued in the State Fiscal year 2022 (Unaudited)	3



The Arizona Auditor General has released the first in a series of 3 audit reports of the Arizona Department of Transportation (Department) as part of the Department's sunset review. This performance audit determined whether the Department's Motor Vehicle Division (MVD) ensured authorized third-party providers (third parties) issued vehicle titles, registrations, driver licenses, and identification cards only to qualified applicants and whether MVD implemented an effective quality assurance process to ensure third parties complied with minimum standards. The second performance audit will determine whether MVD inspected commercial driver license examination providers and examiners within federally required time frames and consistently took remedial action in response to inspection violations it identified. The final audit report will provide responses to the statutory sunset factors.

Department is statutorily responsible for providing various driver and vehicle services to the public

The Department is responsible for managing the State's transportation system and consists of 9 divisions, including MVD.¹ MVD is responsible for carrying out some of the Department's statutory responsibilities by providing various driver and vehicle services to the public, such as issuing certificates of title, vehicle registrations, driver licenses, and identification cards, including driver licenses and identification cards designated as "travel compliant" or commonly referred to as Travel IDs (see textbox).² As of February 2023, MVD operated 43 field offices across the State and also offered the public the ability to obtain some services online or by mail. In fiscal year 2022, MVD licensed over 5.8 million drivers and registered over 7.7 million vehicles in the State.³

Department's MVD contracts with third parties to issue vehicle titles, registrations, driver licenses, and identification cards, as authorized by statute

Statute authorizes the Department to contract with private companies, known as third parties, to provide

Key terms

Certificate of title (vehicle title)—A legal document that shows proof of vehicle ownership. A person must apply for a vehicle title within 15 days after the purchase or transfer of the vehicle.

Registration—Required authorization to allow a person to operate a motor vehicle on public roadways. Registration requires the payment of a general fee and the vehicle license tax and may require an emissions test.

Travel ID—Optional federally approved form of identification that meets the provisions of the federal REAL ID Act of 2005.¹ Driver licenses and identification cards can be designated as Travel IDs and allow the holder access to federally regulated facilities, including boarding a commercial aircraft.

¹ 49 U.S. Code (USC) 30301.

Source: Auditor General staff review of A.R.S. §§28-2051(A), 28-2153, 28-1171, 28-3175, and 49-542; Arizona Administrative Code (AAC) R17-4-301 and R18-2-1007; 49 USC 30301; and MVD's website.

¹ Arizona Revised Statutes (A.R.S.) §28-331.

² A.R.S. §28-332(B).

³ In addition to the 5.8 million licensed drivers, MVD issued over 1.5 million identification cards in fiscal year 2022.

some of the same services provided at MVD field offices, including issuing vehicle titles, registrations, driver licenses, and identification cards.^{4,5} Third parties offer services in physical locations across the State, and unlike MVD's field offices, some third parties operate on weekends.⁶ The standard third-party contract authorizes all third parties to provide vehicle title and registration services to the public.⁷ Additionally, statute allows the Department to authorize third parties to issue driver licenses and identification cards if they meet specific requirements, including, but not limited to, operating as an authorized third party for at least the preceding 3 years and being in good standing with the Department.⁸ The Department's MVD carries out the Department's statutory responsibilities related to third parties. As of October 2022, MVD contracted with 96 third parties that operated 175 locations in the State, with the third parties being authorized to issue driver licenses and identification cards at 67 of those locations.⁹ Statute requires third parties to submit to the Department all statutorily prescribed fees and taxes it collects, and third parties may charge customers an additional fee for their services.¹⁰

Additionally, the Department's MVD is required to certify the individuals employed by or contracted with third parties that perform authorized driver and vehicle services.¹¹ For example, MVD certifies vehicle title and registration employees/contractors to review and issue or deny applications for vehicle title and/or registrations. Statute requires the Department and the contract allows for MVD to supervise and regulate third parties and their employees/contractors (see Finding 1, pages 4 through 10, for issues we identified with MVD's supervision and oversight of third parties).^{12,13}

As seen in Figure 1 (see page 3), in fiscal year 2022, third parties issued approximately 6 million of the more than 17 million vehicle titles, registrations, driver licenses, and identification cards issued in the State, accounting for approximately 36 percent of the issuances of these documents in the State.

⁴ A.R.S. §§28-5100 and 28-5101(A).

⁵ Third parties may also be authorized to conduct vehicle inspections, mobile home transactions, or motor carrier transactions.

⁶ According to MVD, most third parties are open to the public, but some process transactions only for the third party's fleet vehicles. For example, MVD reported that a national moving truck, trailer, and self-storage rental company contracts with MVD to issue vehicle titles and registrations for its fleet vehicles and does not provide services to the public.

⁷ MVD's third-party contract is effective for 1 year and may be renewed for 1 additional year up to 4 times before needing to complete a new contract.

⁸ According to A.R.S. §28-5101.01, third parties that seek driver license authorization must have been an authorized third party for at least the 3 preceding years, have conducted an average of at least 1,000 retention transactions per month the previous year, be in good standing with the Department, and have a facility with adequate space and necessary equipment to perform driver license functions, such as a driver skills test.

⁹ A third party may operate multiple branch locations. Additionally, third parties must receive approval from MVD for each location at which they want to issue driver licenses and identification cards by demonstrating they meet the statutory requirements (see footnote 8 for requirements). For example, 1 third party had 5 locations but was only authorized to issue driver licenses and identification cards at 3 of the 5 locations.

¹⁰ A.R.S. §28-5101(E).

¹¹ According to AAC R17-7-101, a third party must employ or contract with at least 1 certified individual to provide authorized services. Individuals may be certified upon meeting various requirements, including submitting an application outlining the services for which the applicant is seeking certification, a full set of fingerprints for a criminal history records check, being employed by or contracted with a third party, completing all required training courses, and not having any driver license suspensions, revocations, or cancellations within 39 months of applying, including not having convictions such as driving under the influence or reckless driving.

¹² A.R.S. §28-5102(A).

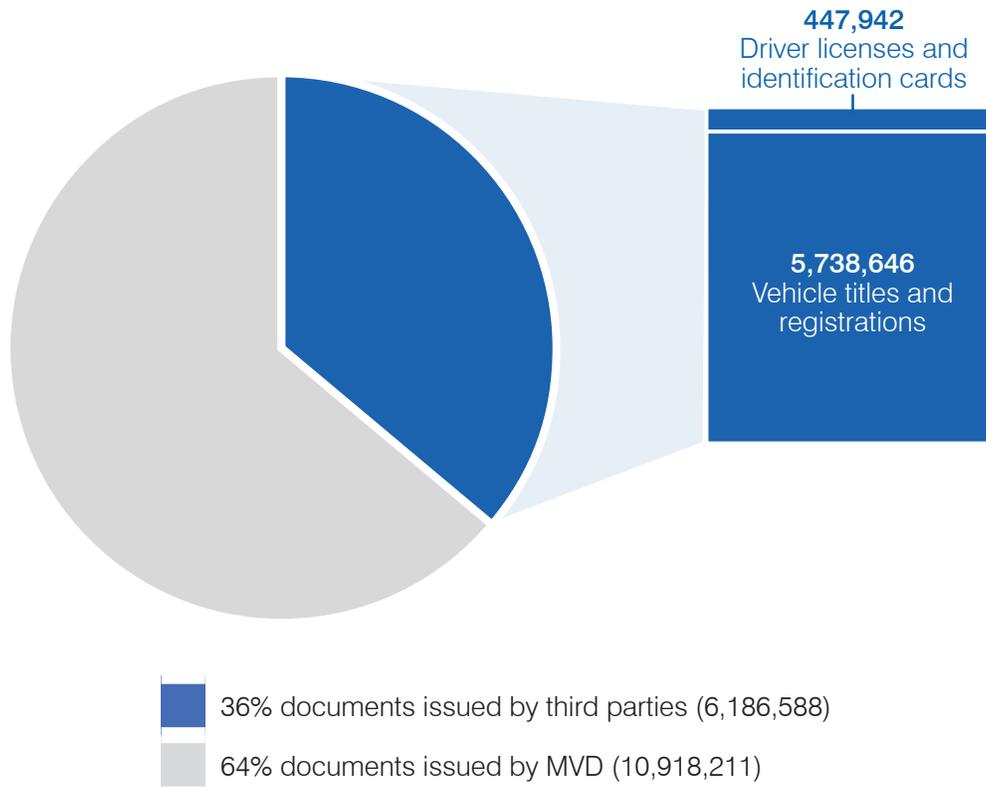
¹³ According to MVD's third-party contract, employees/contractors must comply with the same requirements as the third party.

Figure 1

Third parties issued 36 percent of all vehicle titles, registrations, driver licenses, and identification cards issued in the State¹

Fiscal year 2022

(Unaudited)



¹ Driver licenses and identification cards include original, renewal, and duplicate issuance of commercial licenses and permits, driver licenses and permits, motorcycle licenses and permits, and identification cards that do not provide the holder the authority to operate a motor vehicle.

Source: Auditor General staff analysis of fiscal year 2022 MVD field offices' and third parties' transaction data.



MVD failed to ensure third parties consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, putting public safety and welfare at risk

Issuing vehicle titles, driver licenses, and identification cards to unqualified and unauthorized individuals/entities puts public safety and welfare at risk

Issuing vehicle titles, driver licenses, and identification cards to individuals/entities who have not demonstrated they are qualified and/or authorized to obtain these documents puts public safety and welfare at risk. Specifically:

- **Unqualified drivers who receive driver licenses pose safety risks on public roadways**—Individuals are required to demonstrate that they can safely operate a motor vehicle before receiving a driver license, including passing knowledge and skills tests and a vision screening. These tests help protect public safety by ensuring only those individuals who are qualified to operate a vehicle are on the road. Failure to verify that an individual is qualified to receive a driver license puts public safety at risk by allowing unqualified and potentially unsafe drivers to operate motor vehicles on public roadways.
- **Unauthorized and/or fraudulent vehicle title transfers increase the risk of financial hardship for victims**—Transferring a vehicle title from 1 party to another without requiring a customer to demonstrate proof of ownership increases the risk of vehicle theft and other fraud that can cause financial hardships for victims. For example, according to the American Association of Motor Vehicle Administrators (AAMVA), vehicle fraud is a common crime that occurs when a person committing an act of fraud obtains a vehicle title or other documentation to obtain illegal ownership of a vehicle.¹⁴ Victims may face financial hardships from the theft of their vehicles or from unknowingly purchasing a vehicle that was stolen through vehicle fraud. Additionally, according to AAMVA, another form of vehicle fraud involves fraudulently obtaining a vehicle title to drastically change a vehicle's value, such as through odometer fraud by rolling back odometer readings.¹⁵ According to Carfax, as of December 2022, more than 1.9 million vehicles were on

¹⁴ American Association of Motor Vehicle Administrators (AAMVA). (2021). *Third-party agent administration best practices: Administering, expanding, and establishing a third-party program*. Arlington, VA. Retrieved 11/1/2022 from <https://www.aamva.org/getmedia/829b41b3-9442-4994-93c9-ba59fbc3cad8/Third-Party-Agent-Administration-Best-Practices.pdf>. AAMVA is a nonprofit organization that develops model programs in motor vehicle administration, law enforcement, and highway safety. Arizona is a member of AAMVA and, as of June 2023, the MVD Director was a member of 1 of AAMVA's 4 regional Boards of Directors.

¹⁵ According to the National Highway Traffic Safety Administration (NHTSA), odometer fraud is the disconnection, resetting, or alteration of a vehicle's odometer with the intent to change the number of miles indicated. See National Highway Traffic Safety Administration. (2010). *Information about odometer fraud*. Retrieved 3/28/2023 from <https://www.nhtsa.gov/sites/nhtsa.gov/files/811284.pdf>.

the road with rolled-back odometers, including over 54,000 vehicles in Arizona.¹⁶ Further, Carfax reported consumers lose an average of \$4,000 in value from unknowingly buying a car with a rolled-back odometer, which does not include unexpected maintenance costs.

- **Fraudulently obtained identification documents may facilitate criminal activity, including fraud, identity theft, and terrorism**—Individuals who fraudulently obtain identification documents may do so to commit other crimes, such as fraud or acts of terrorism. For example, according to AAMVA, driver licenses and identification cards are highly valuable to criminals because they can be used to perpetrate fraud and other types of crime. Additionally, AAMVA indicates that issuing driver licenses and identification cards containing false or inaccurate information might result in an individual being granted privileges they may not be entitled to.¹⁷ Further, the issuance of a Travel ID demonstrates that an individual met federal security standards and is authorized to access federally regulated facilities, including boarding federally regulated commercial aircraft. These federal security standards were developed and implemented through the federal REAL ID Act of 2005 in response to a 9/11 Commission recommendation following the September 11, 2001, terrorist attacks in the U.S.^{18,19} Issuing Travel IDs to applicants who do not meet these standards could increase the risk of terrorism.

MVD has established statutorily required third-party quality standards and process, but third parties we reviewed did not comply with standards and process, including issuing some vehicle titles, driver licenses, and identification cards without evidence that individuals/entities were qualified and/or authorized to receive them

The Department's MVD is statutorily required to establish minimum quality standards of service for third parties and a quality assurance program to ensure that third parties are complying with these standards.²⁰ Additionally, MVD's third-party contract requires third parties to comply with all applicable federal and State laws and regulations, and all MVD policies, procedures, and training materials, and to be 95 percent accurate when issuing vehicle titles, registrations, driver licenses, and identification cards.²¹

Additionally, Department rules, quality assurance standards, and contract provisions include requirements related to third parties' identification and resolution of errors through self-review of processed transactions, retention of supporting documentation, and timely resolution of identified errors. Specifically, rule requires third parties to receive and retain all supporting documents related to their authorized activities, such as issuing vehicle titles, driver licenses, and identification cards, and before updating Department databases.²² MVD's quality assurance process also requires third parties to daily self-review 3 percent of the transactions they processed on the previous day, which are randomly selected by MVD staff. MVD has access to review the results of these self-reviews. According to MVD's quality assurance procedures, third parties are required to review the supporting documents uploaded to MVD's database for each selected transaction to identify any findings of errors, such as missing supporting documents. Further, MVD's third-party contract performance measurement attachment also requires third parties to resolve any errors identified through the quality

¹⁶ Carfax. (2022). *Odometer rollback is on the rise*. Retrieved 6/6/2023 from <https://www.carfax.com/press/resources/odometer>. Carfax is a private company that the NHTSA has cited for vehicle data in its technical reports.

¹⁷ AAMVA, 2021.

¹⁸ 49 USC 30301.

¹⁹ National Commission on Terrorist Attacks. (2004). *The 9/11 commission report*. New York, NY: WW Norton. Retrieved 6/2/2023 from <https://9-11commission.gov/report/>.

²⁰ A.R.S. §28-5102(A)(2).

²¹ The 95 percent accuracy requirement is listed in an attachment to MVD's third-party contract related to performance measurement. However, the contract attachment does not expressly describe how or when the 95 percent accuracy rate should be measured or calculated (see page 8 for more information).

²² AAC R17-7-204.

assurance process in a timely manner, which is within 7 days of identification according to MVD's quality assurance procedures.

However, some third parties have not followed MVD's quality assurance process or complied with various requirements for issuing vehicle titles, driver licenses, and identification cards to qualified and/or authorized individuals/entities on behalf of the State. Specifically, some third parties:

- **Have not reviewed all transactions selected for self-review**—Our review of MVD's quality assurance process data from March to October 2022 found that third parties failed to review and provide results of their self-reviews to MVD for 8,534 of 70,196 transactions, or 12 percent, MVD selected for third-party self-review. In fact, 1 third party failed to review more than 5,700 transactions during this time frame. However, MVD inaccurately recorded that this third party had monthly accuracy rates in the high 90 percent range throughout calendar year 2022 despite lacking any information about the accuracy rate for the nearly 6,000 selected transactions the third party did not review to determine if they were accurate (see page 8 for more information on deficiencies in MVD's calculation of accuracy rates).
- **Issued vehicle titles, driver licenses, and identification cards without documentation confirming individuals/entities were qualified/authorized to receive them**—Our review of a sample of 130 transactions that MVD selected for third parties to self-review from March through October 2022 found that 25 of these transactions, or approximately 19 percent, lacked documentation that confirmed that the individuals/entities who received vehicle titles, driver licenses, and identification cards were qualified and/or authorized to receive them.²³ Of these 25 transactions, 22 contained high-risk errors according to MVD guidance (see textbox for examples of transactions MVD classifies as high and low risk). For example:
 - **10 individuals/entities received vehicle titles without information required to prove lawful transfer of vehicle ownership**—10 of 88 vehicle title and registration transactions we reviewed lacked documentation to prove the lawful transfer of ownership, including 2 without the sellers' signatures on the current vehicle title to demonstrate the seller had approved the transfer of those vehicles' ownership, 1 without the odometer disclosure form required by MVD policy, and 1 without documentation demonstrating that the individual was the sole proprietor of a company and thus had the authority to transfer the vehicle out of the company's ownership, as required by MVD procedures.

Examples of high- and low-risk errors

Vehicle titles and registrations

- **High risk**—Missing ownership documentation or missing odometer disclosure.¹
- **Low risk**—Missing the signer's company/organization title next to their signature.

Driver licenses and identification cards

- **High risk**—Missing/unacceptable documentation to establish identity or missing evidence that the customer passed required testing, such as a road test or vision screening.
- **Low risk**—Missing the third-party employee/contractor's identification number next to their signature.

¹ According to 49 USC 32702(5), an odometer is an instrument that measures and records the distance a motor vehicle has driven. Further, 49 USC 32705 states that a person transferring ownership of a motor vehicle shall give the transferee written disclosure of the cumulative mileage registered on the odometer or disclose that the actual mileage is unknown if the transferor knows that the odometer reading is different from the number of miles the vehicle has actually traveled.

Source: Auditor General staff review of MVD third-party quality assurance guidance documents, 49 USC 32702(5), and 49 USC 32705.

²³ We reviewed 130 of 70,196 transactions that MVD selected for third parties to self-review from March through October 2022. Based on the types of transactions processed, such as vehicle title only, vehicle title and registration, driver license, and identification cards; the various scenarios of how third parties recorded the results of their self-review; and the reported accuracy rates of some third parties, we reviewed 4 separate samples of transactions that were provided to third parties for their self-review (see Appendix A, pages a-1 through a-2, for more information on the samples).

- **8 individuals received driver licenses without evidence they were qualified to safely operate a vehicle**—8 of 42 driver license and identification card transactions we reviewed lacked documentation to demonstrate that the customers had passed all required testing to demonstrate they could safely operate a vehicle as required by statute and MVD procedures—5 without documentation demonstrating passage of a behind-the-wheel skills test, 2 without documentation of a vision screening, and 1 without documentation of either passage of the knowledge test or a behind-the-wheel skills test. The third parties had not conducted a self-review of 5 of these erroneous transactions, and for the remaining 3 transactions, had reported to MVD that the transactions did not have errors (see below for more information).
- **4 individuals received driver licenses or identification cards without sufficient identity or residency documentation**—4 of 42 driver license and identification card transactions we reviewed lacked identity or residency documentation required by statute, federal regulations, and/or MVD policy. For example, a third party issued a Travel ID driver license to a customer who was a foreign national with temporary authorization to work in the U.S. without obtaining all required identification and residency documentation. Specifically, the third party did not require the customer to submit an unexpired U.S. Visa and foreign passport to prove their identity, as required by federal regulations, or to submit 2 acceptable documents to demonstrate Arizona residency, as required by federal regulations and MVD policy.²⁴
- **Reported to MVD that inappropriately processed transactions were error free**—For 9 of 25 transactions we identified in which third parties issued documents to unqualified and/or unauthorized individuals/entities, the third parties reported to MVD through the self-review process that these transactions had no errors.
- **Had not resolved some errors identified through the quality assurance process within required 7 days**—Third parties identified at least 1 error in 7 of 25 transactions we identified in which third parties issued documents to unqualified and/or unauthorized individuals/entities. However, the third parties did not resolve the errors within 7 days, as required by MVD procedures. Specifically, although these errors were identified by third parties during transaction reviews in March through October of 2022, the errors were still unresolved at the time of our review in February 2023. Subsequent to our review and in response to our audit, a third party corrected 1 of these 7 transactions, 8 months after it identified the error, by uploading all required documentation to MVD’s database confirming a company was authorized to receive a vehicle’s title.

MVD has not sustained third-party monitoring and oversight processes consistent with our previous recommendations and has not held third parties to same standards as its own employees

Our 2015 performance audit of the Department reported that MVD planned to change its third-party oversight processes to more efficiently allocate its resources. We recommended MVD ensure any changes to its processes did not weaken its oversight of third parties, with specific recommendations to improve its oversight of third-party transaction accuracy and to take corrective actions against third parties with serious errors or patterns of problems.²⁵ Although our 24-month followup to the 2015 performance audit found that MVD implemented our recommendations, after our followup, MVD established a new quality assurance process in February 2022 that is inconsistent with recommended practices for monitoring and overseeing third parties’ performance.²⁶ Specifically, MVD:

²⁴ 6 Code of Federal Regulations (CFR) 37.11. Additionally, 6 CFR 37.11 states that a person must present at least 2 documents of the State’s choice that include the individual’s name and principal residence, and MVD procedures outline acceptable proof of address documents, such as utility bills.

²⁵ Arizona Auditor General report 15-104 *Arizona Department of Transportation—Motor Vehicle Division*.

²⁶ Arizona Auditor General report 15-104 *24-Month Follow-up Report*.

- **Has not described performance requirements in its third-party contract attachment or specified how it will evaluate third parties' performance**—As previously discussed, MVD's third-party contract performance measurement attachment states that third parties must be 95 percent accurate when issuing vehicle titles, registrations, driver licenses, and identification cards. However, neither MVD's performance measurement attachment nor its quality assurance procedures expressly describe what constitutes an error or whether some errors would be considered more severe than others. For example, we found that MVD staff calculated third parties' accuracy rates using only those transactions that third parties had self-reviewed and omitting any transactions that the third parties had failed to review but were required to review, potentially artificially and inaccurately increasing the third parties' accuracy rate.

In addition, MVD's third-party contract performance measurement attachment does not outline time frames for when MVD will evaluate a third party's accuracy rate or how and when MVD will communicate performance findings to third parties. In contrast, recommended practices for contracting for services from the National State Auditors Association (NSAA) state that performance requirements should be clearly defined and measurable, and identify how vendor performance will be evaluated.²⁷ Additionally, AAMVA recommends third-party contracts should include supporting documents attached to the contract that define the error identification and corrective process, steps to escalate the correction of poor performance, and time frames for correcting performance deficiencies.²⁸ Further, AAMVA states that agencies should report to third parties the accuracy rate for each employee/contractor reviewed and any transactions sampled, and transaction errors identified by the agency so the third party is aware of the areas that need improvement.²⁹ As of April 2023, MVD had not developed written policies or procedures for how to calculate, track, monitor, or communicate to third parties their performance and accuracy rates.

- **Has not routinely monitored whether third parties completed self-reviews and corrected identified errors**—MVD staff reported that MVD did not have a process in place to routinely monitor third parties' self-reviews to ensure they are completed and errors are corrected, and only "spot checks" 3 to 5 transactions included in a third party's self-review prior to MVD conducting an inspection of that third party. However, relying on inspections versus routine monitoring is insufficient to monitor and correct identified errors. For example, MVD is not statutorily required to conduct inspections of third parties at regular intervals, and according to MVD's inspection data, as of January 2023, almost 120 third-party locations had not been inspected in over 4 years. Specifically, 29 third-party locations last received an inspection in 2017, and another 87 locations last received an inspection in 2018.³⁰ In contrast, NSAA states that entities should monitor contractors, such as MVD's third parties, to ensure performance expectations are achieved and any problems are identified and resolved.³¹ Similarly, recommended practices from AAMVA for administering a third-party program suggest that if third parties are asked to correct errors, the contracting agency should review the accuracy of corrected errors to ensure the agency is satisfied with the outcome.³²

In response to our audit, in October 2022, MVD began reviewing monthly whether third parties were completing self-reviews and identifying those third parties that were not (see next bullet for more information on issues we identified with MVD's enforcement process). However, as of April 2023, MVD had not developed written policies or procedures for reviewing third-party completion of self-reviews or developed a process to ensure that identified errors are accurately corrected.

²⁷ National State Auditors Association (NSAA). (2003). *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 11/3/2022 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2003_Contracting_Best_Practices.pdf.

²⁸ AAMVA, 2021.

²⁹ AAMVA, 2021.

³⁰ MVD's inspection data includes all third-party locations, including main locations and any branch locations.

³¹ NSAA, 2003.

³² AAMVA, 2021.

- Has not taken enforcement action against third parties failing to meet contract performance requirements**—Although MVD began reviewing whether third parties completed self-reviews in October 2022 and identifying those third parties that were not, we found that MVD did not hold some third parties accountable for failing to complete reviews. For example, we found that 5 of 13 third parties that MVD identified as not completing self-reviews in January 2023 had also not completed self-reviews in December 2022. Although MVD sent these 5 third parties written notices of their noncompliance, most with multiple notices, MVD had not taken other enforcement actions outlined in its third-party contract, such as probation or suspension, in response to the third parties' failure to meet contract performance requirements.³³ Further, when reviewing whether third parties were completing self-reviews, MVD did not review or determine whether third parties were correcting identified errors within 7 days in accordance with MVD procedures or hold those third parties accountable for not doing so. Additionally, as of April 2023, MVD had not established written policies and procedures for taking enforcement action against third parties that fail to meet contract performance requirements. AAMVA recommends that agencies communicate to third parties the expectations for accuracy and potential disciplinary actions for poor performance and that agencies should handle poor third-party performance on a transaction level, as well as on a contract level, with corrective action ranging from increased oversight to suspension or cancellation of the contract.³⁴
- Does not verify that third-party employees/contractors attend ongoing, required training**—According to MVD staff, third parties have access to an MVD-managed virtual classroom that serves as the main platform for communicating any changes to processes as well as to virtual training videos. In addition, MVD hosted a training in December 2021 on the new quality assurance process. Although MVD reported that it required third parties and their certified employees/contractors to attend the training, MVD staff reported that it did not maintain a roster of who attended the training, and therefore could not follow up with those third parties that did not attend. AAMVA recommends that employees/contractors complete ongoing training when necessary because of changes in laws, policies, procedures, or data security practices.³⁵

Finally, MVD's third-party quality assurance process does not hold third parties to the same standards as MVD employees performing the same services. Specifically, as previously discussed (see page 5), third parties are expected to daily self-review 3 percent of all transactions processed on the previous day. In contrast, MVD field offices have a separate unit with 10 full-time staff who are responsible for reviewing between 15 to 20 percent of all vehicle title, registration, driver license, and identification card transactions processed weekly by other MVD employees at its field offices.

Recommendations

MVD should:

- Ensure its third-party contract performance measurement attachment includes clearly defined performance requirements, including outlining in the attachment:
 - How and when accuracy rates will be calculated and measured.
 - Time frames for correcting performance deficiencies.
 - How performance findings will be communicated to third parties.
- Ensure third parties issue vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities by developing and implementing written policies, procedures, and guidance for its third-party quality assurance process, including but not limited to:
 - Procedures and required time frames for monitoring third-party completion of self-reviews.

³³ According to MVD's third-party contract, potential enforcement actions can include verbal warning, letter of concern, probation, suspension, and contract cancellation.

³⁴ AAMVA, 2021.

³⁵ AAMVA, 2021.

- b. Procedures for selecting transactions completed by third parties for MVD’s review, including outlining how and what MVD staff should review, and how to track the results of MVD’s review, including documenting any identified errors.
 - c. Procedures and required time frames for communicating the results of MVD staffs’ reviews to third parties.
 - d. Procedures and time frames for following up with third parties to ensure errors and other performance deficiencies are resolved.
 - e. Procedures for taking enforcement action in response to third-party noncompliance, including steps to escalate enforcement actions based on repeated/continued noncompliance.
 - f. Procedures for requiring additional training for third parties that require further guidance on its third-party quality assurance process or the minimum standards, such as for third parties that have repeat transaction errors or noncompliance with MVD’s quality assurance process.
 - g. Procedures outlining MVD management’s review of its third-party quality assurance process to ensure time frames are met and identified performance deficiencies are corrected.
3. Develop and implement training on its quality assurance policies and procedures for all applicable MVD staff who support the third-party quality assurance process to ensure adherence to established oversight policies, procedures, and guidance.
 4. Develop and implement training for all third parties or their authorized representatives, and verify their completion of the training, including:
 - a. Initial training on the quality assurance process, quality assurance expectations, and available enforcement actions to address noncompliance.
 - b. Ongoing training when necessary because of changes in law, policies, and procedures, and ensure any new information is incorporated into initial training for new third parties or their authorized representatives.
 5. Conduct an initial analysis of transactions the third parties were provided for self-review dating back to February 2022 to assess third-party compliance with statutory minimum quality standards and MVD’s quality assurance process, and continue to complete a monthly analysis thereafter up until MVD implements a revised third-party quality assurance process as described in Recommendation 2, and:
 - Identify the lowest performing third parties.
 - Conduct a comprehensive review of the transactions processed by those identified third parties, and work with those identified third parties to resolve transaction errors.
 - Work with its Assistant Attorney General to take appropriate enforcement action against third parties that are not complying with the statutorily required minimum quality standards and MVD’s quality assurance process.
 6. Identify and implement changes to align its third-party quality assurance process more closely with its quality assurance process for MVD field offices, including conducting a staffing and workload analysis, and taking action as needed to ensure sufficient staffing resources are allocated to third-party oversight.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 6 recommendations to MVD

MVD should:

1. Ensure its third-party contract performance measurement attachment includes clearly defined performance requirements, including outlining in the attachment:
 - How and when accuracy rates will be calculated and measured.
 - Time frames for correcting performance deficiencies.
 - How performance findings will be communicated to third parties (see Finding 1, pages 4 through 10, for more information).
2. Ensure third parties issue vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities by developing and implementing written policies, procedures, and guidance for its third-party quality assurance process, including but not limited to:
 - a. Procedures and required time frames for monitoring third-party completion of self-reviews.
 - b. Procedures for selecting transactions completed by third parties for MVD's review, including outlining how and what MVD staff should review, and how to track the results of MVD's review, including documenting any identified errors.
 - c. Procedures and required time frames for communicating the results of MVD staffs' reviews to third parties.
 - d. Procedures and time frames for following up with third parties to ensure errors and other performance deficiencies are resolved.
 - e. Procedures for taking enforcement action in response to third-party noncompliance, including steps to escalate enforcement actions based on repeated/continued noncompliance.
 - f. Procedures for requiring additional training for third parties that require further guidance on its third-party quality assurance process or the minimum standards, such as for third parties that have repeat transaction errors or noncompliance with the quality assurance process.
 - g. Procedures outlining MVD management's review of its third-party quality assurance process to ensure time frames are met and identified performance deficiencies are corrected (see Finding 1, pages 4 through 10, for more information).
3. Develop and implement training on its quality assurance policies and procedures for all applicable MVD staff who support the third-party quality assurance process to ensure adherence to established oversight policies, procedures, and guidance (see Finding 1, pages 4 through 10, for more information).
4. Develop and implement training for all third parties or their authorized representatives, and verify their completion of the training, including:

- a. Initial training on the quality assurance process, quality assurance expectations, and available enforcement actions to address noncompliance.
 - b. Ongoing training when necessary because of changes in law, policies, and procedures, and ensure any new information is incorporated into initial training for new third parties or their authorized representatives (see Finding 1, pages 4 through 10, for more information).
5. Conduct an initial analysis of transactions the third parties were provided for self-review dating back to February 2022 to assess third-party compliance with statutory minimum quality standards and MVD's quality assurance process, and continue to complete a monthly analysis thereafter up until MVD implements a revised third-party quality assurance process as described in Recommendation 2, and:
- Identify the lowest performing third parties.
 - Conduct a comprehensive review of the transactions processed by those identified third parties, and work with those identified third parties to resolve transaction errors.
 - Work with its Assistant Attorney General to take appropriate enforcement action against third parties that are not complying with the statutorily required minimum quality standards and MVD's quality assurance process (see Finding 1, pages 4 through 10, for more information).
6. Identify and implement changes to align its third-party quality assurance process more closely with its quality assurance process for MVD field offices, including conducting a staffing and workload analysis, and taking action as needed to ensure sufficient staffing resources are allocated to third-party oversight (see Finding 1, pages 4 through 10, for more information).



Scope and methodology

The Arizona Auditor General has conducted this performance audit of the Department pursuant to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing State statutes and rules; MVD's third-party contract; federal laws, regulations, and guidance; MVD policies, procedures, and guidance documents; and the Department's website. We also interviewed MVD staff. In addition, we used the following specific methods to meet the audit objectives:

- To determine the number of transactions MVD staff provided to third parties for their self-review from March through October 2022 and whether third parties were complying with MVD quality assurance procedures, we compiled and analyzed MVD's quality-assurance-process data related to self-reviews for the 94 third parties subject to the quality assurance self-review process as of October 2022.³⁶
- To determine whether third parties issued vehicle titles, registrations, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, we reviewed 130 of 70,196 transactions that MVD staff provided to third parties for self-review between March and October 2022.³⁷ For these 130 transactions, we reviewed the customer/vehicle information, such as the application and supporting documentation; other documents, including MVD policies, procedures, and guidance; and notes from the third party if the transaction was self-reviewed.³⁸ We selected these 130 transactions using the following sampling methods:
 - A stratified judgmental sample of 30—10 for driver licenses and identification cards, 10 vehicle title only, and 10 vehicle title and registration—of 749 transactions third parties identified as having at least 1 “high-risk” error, following the process outlined in MVD's quality assurance procedures. We judgmentally selected transactions from multiple third parties that had notated high-risk errors, such as transactions that were missing supporting documents and whether the third party indicated if the errors were corrected.
 - A stratified random sample of 30—10 for driver licenses and identification cards, 10 vehicle title only, and 10 vehicle title and registration—of 8,534 transactions that had no indication that they were reviewed by the third parties.
 - A judgmental sample of 50 transactions from the 3 largest third parties by volume of transactions provided for self-review selected from 16 third parties MVD reported as having 100 percent accuracy

³⁶ Although MVD contracted with 96 third parties as of October 2022, 1 third party did not process any transactions during the review period, and MVD reported the other did not provide services to the public, issuing vehicle titles and registrations for only its fleet vehicles, and was not subject to the self-review process.

³⁷ Of the 130 transactions we reviewed, 88 were for vehicle titles and registrations and 42 were for driver licenses and identification cards. Vehicle title and registration transactions include vehicle title only transactions, vehicle title and registration transactions, and transactions classified as lien/brand, which is a type of vehicle title transaction. Of the 88 vehicle title and registration transactions we reviewed, 56 were vehicle title only or lien/brand transactions, and 32 were vehicle title and registration transactions.

³⁸ Some transactions required review of additional sources of information, including information from the Arizona Corporation Commission and the U.S. Department of Homeland Security.

for more than 6 months between March and October 2022. We judgmentally selected the highest transaction volume day for each of the 3 third parties between March and October 2022 and reviewed all the transactions they were provided for self-review on that day. In instances in which a third party had more than 1 day with the same highest volume transaction count, we selected the latest day within the review time frame.

- A random sample of 20 Travel ID driver license and identification card transactions processed by 3 judgmentally selected high-risk third parties. These 3 third parties were considered high-risk because MVD identified 2 third parties in January 2023 as repeatedly not completing their self-reviews and 1 third party that MVD identified as not completing its self-review in December 2022 and having a low accuracy rate in January 2023. To identify 20 Travel ID driver license and identification card transactions, we selected a random sample of 60 of 398 driver license and identification card transactions—which included both Travel and non-Travel driver license and identification card transactions—processed by these 3 third parties, of which we reviewed each transaction to identify and review a total of 20 Travel ID driver license and identification card transactions.³⁹
- To determine the potential impact to public safety and welfare of issuing vehicle titles, driver licenses, and identification cards to unqualified and/or unauthorized individuals/entities, we reviewed information and statistics from Carfax on odometer fraud, recommended practices from AAMVA on administering a third-party program, and the National Commission on Terrorist Attacks Upon the United States' commission report.⁴⁰
- To identify MVD's third-party self-review requirements, we reviewed a recording of MVD's training webinar provided to third parties in December 2021 and MVD procedures directing third parties on how to complete their self-reviews.
- To evaluate MVD's oversight of third parties' self-reviews, we reviewed internal email communication about third parties' compliance with self-review requirements; MVD's monthly third-party accuracy rate tracking document containing data on accuracy rates in calendar year 2022; an MVD-prepared document listing third parties that did not complete their self-reviews in December 2022 and January 2023; written notices sent by MVD to third parties in January and February 2023; and our 2015 performance audit of the Department's MVD and the 24-month followup to the 2015 performance audit.⁴¹
- To determine whether MVD's third-party quality assurance process was consistent with MVD field office quality assurance processes and recommended practices, we reviewed MVD organization charts; MVD field office quality assessment guidance; MVD field office quality assessment data from May 16, 2022 through June 17, 2022; MVD's improvement initiatives for field office accuracy from April 2022 and June 2022; and recommended practices from AAMVA on third-party agent administration and NSAA on contracting for services.⁴²
- To obtain information for the Introduction, we reviewed the Department's website and the interactive map of MVD service locations; information on the federal Department of Homeland Security website on the Real ID Act of 2005; and MVD-provided data on active third parties and the driver/vehicle services each third party is authorized to complete. We also analyzed unaudited MVD-provided data on driver licenses issued as of fiscal year 2022 and field offices' and third parties' transaction data for fiscal year 2022.

Our work on internal controls included reviewing third-party driver and vehicle service transactions and, where applicable, testing compliance with federal regulations, State statute and rule requirements, and MVD policies

³⁹ MVD staff provided the 3 third parties a total of 405 driver license and identification card transactions for self-review between March and October 2022; however, 7 of these transactions appeared in our earlier samples and were removed from our review.

⁴⁰ Carfax, 2022; AAMVA, 2021; and National Commission on Terrorist Attacks, 2004.

⁴¹ Arizona Auditor General report 15-104 *Arizona Department of Transportation—Motor Vehicle Division* and Arizona Auditor General report 15-104 *24-Month Follow-up Report*.

⁴² AAMVA, 2021; and NSAA, 2003.

and procedures. We also assessed MVD's oversight of third parties, including its processes for overseeing third parties' completion of quality assurance self-reviews. We reported our conclusions on applicable internal controls in Finding 1.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of the Department's MVD in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the Department Director and staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

August 17, 2023

Lindsey Perry, CPA, CFE
Auditor General
2910 N 44.th Street, Suite 410
Phoenix, Arizona 85018-7571

Subject: Motor Vehicle Division's (MVD) Oversight of Authorized Third Parties

Dear Ms. Perry:

Attached is the Arizona Department of Transportation's response to the performance audit of the Motor Vehicle Division's oversight of authorized third parties.

We appreciate being given the opportunity to respond.

If you have any questions, please do not hesitate to contact my office.

Sincerely,



Jennifer Toth
Director

Enclosure

Finding 1: MVD failed to ensure third parties consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities, putting public safety and welfare at risk

Recommendation 1: MVD should ensure its third-party contract performance measurement attachment includes clearly defined performance requirements, including outlining in the attachment:

- How and when accuracy rates will be calculated and measured.
- Time frames for correcting performance deficiencies.
- How performance findings will be communicated to third parties.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The department will work with legal counsel to create the appropriate amendments to ATP contracts and those updates will be added to ATP contracts on renewal.

Recommendation 2: MVD should ensure third parties issue vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities by developing and implementing written policies, procedures, and guidance for its third-party quality assurance process, including but not limited to:

Recommendation 2a: Procedures and required time frames for monitoring third-party completion of self-reviews.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: New draft procedures have been documented and are in pilot phase. Upon completion of the pilot, all procedures will be formally adopted.

Recommendation 2b: Procedures for selecting transactions completed by third parties for MVD's review, including outlining how and what MVD staff should review, and how to track the results of MVD's review, including documenting any identified errors.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: New draft procedures have been documented and are in pilot phase. Upon completion of the pilot, all procedures will be formally adopted.

Recommendation 2c: Procedures and required time frames for communicating the results of MVD staffs' reviews to third parties.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: New draft procedures have been documented and are in pilot phase. Upon completion of the pilot, all procedures will be formally adopted.

Recommendation 2d: Procedures and time frames for following up with third parties to ensure errors and other performance deficiencies are resolved.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: New draft procedures have been documented and are in pilot phase. Upon completion of the pilot, all procedures will be formally adopted.

Recommendation 2e: Procedures for taking enforcement action in response to third-party noncompliance, including steps to escalate enforcement actions based on repeated/continued noncompliance.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The department will review options for enforcement actions both internally and with the AGs office to determine what actions are available and appropriate. These actions will be documented and the contracts will be updated during the annual renewal as needed.

Recommendation 2f: Procedures for requiring additional training for third parties that require further guidance on its third-party quality assurance process or the minimum standards, such as for third parties that have repeat transaction errors or noncompliance with MVD's quality assurance process.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD will require and monitor performance improvement plans for ATPs that fail to meet minimum standards, including additional training and monitoring measures.

Recommendation 2g: Procedures outlining MVD management's review of its third-party quality assurance process to ensure time frames are met and identified performance deficiencies are corrected.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: This review is now occurring in our monthly business reviews for the pilot. Upon completion of the pilot, all procedures, including an escalation process, will be formally adopted.

Recommendation 3: MVD should develop and implement training on its quality assurance policies and procedures for all applicable MVD staff who support the third-party quality assurance process to ensure adherence to established oversight policies, procedures, and guidance.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The department will formalize and document its training.

Recommendation 4: MVD should develop and implement training for all third parties or their authorized representatives, and verify their completion of the training, including:

Recommendation 4a: Initial training on the quality assurance process, quality assurance expectations, and available enforcement actions to address noncompliance.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ATPs are responsible to train their employees. MVD does and will continue to provide resources to facilitate that training, both for initial training and updates as changes occur. Specifically, MVD will provide training material for the new Quality Assurance program and will require ATPs to confirm completion.

Recommendation 4b: Ongoing training when necessary because of changes in law, policies, and procedures, and ensure any new information is incorporated into initial training for new third parties or their authorized representatives.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: MVD will maintain and document updates to this training as it does with other training materials provided to both internal staff and ATPs. Since training materials are taken from a central source, the current material will always be what is available to ATPs. Additionally, ATPs will be made aware of the updates through topical webinars and other means.

Recommendation 5: MVD should conduct an initial analysis of transactions the third parties were provided for self-review dating back to February 2022 to assess third-party compliance with statutory minimum quality standards and MVD's quality assurance process, and continue to complete a monthly analysis thereafter up until MVD implements a revised third-party quality assurance process as described in Recommendation 2, and:

- Identify the lowest performing third parties.
- Conduct a comprehensive review of the transactions processed by those identified third parties, and work with those identified third parties to resolve transaction errors.
- Work with its Assistant Attorney General to take appropriate enforcement action against third parties that are not complying with the statutorily required minimum quality standards and MVD's quality assurance process.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The department will reevaluate the lowest performers, taking into consideration the prior unreviewed transactions. The department will take a deeper look at those third parties going forward and will work to resolve outstanding errors, taking disciplinary action as necessary.

Recommendation 6: MVD should identify and implement changes to align its third-party quality assurance process more closely with its quality assurance process for MVD field offices, including conducting a staffing and workload analysis, and taking action as needed to ensure sufficient staffing resources are allocated to third-party oversight.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Changes have been drafted and are in pilot phase. Upon completion of the pilot, all changes will be formally adopted. Staffing needs will be continually reassessed as the program formalizes and budget requests will be made as needed.

